

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03  
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06  
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LAB-04 SIL-01 OMB-01 CPR-01 OPR-02 SY-05 A-01 INT-05  
FEA-01 /098 W

-----160404Z 050770 /67

R 152238Z MAR 77  
FM AMEMBASSY QUITO  
TO SECSTATE WASHDC 3550  
INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 1724

E.O. 11652: GDS  
TAGS: EINV, ENRG, PFOR, EC  
SUBJECT: CONVERSATION WITH SUBSECRETARY OF FOREIGN AFFAIRS ON GULF

REFS: (A) QUITO 1701; (B) QUITO 1622; (C) QUITO 1702

1. BEGIN SUMMARY. CHARGE TOLD SUBSECRETARY AYALA THAT THE ENVIRONMENT FOR THE GOE MISSION TO WASHINGTON WOULD BE IMPROVED BY A SPEEDY SETTLEMENT OF THE GULF CASE OR AT LEAST REMOVAL OF SOME OF THE EXISTING ROADBLOCKS. AYALA SAID THE GULF CASE WOULD BE DISCUSSED WITHIN THE GOE. EMBASSY AND LOCAL GULF REPRESENTATIVE AGREE THAT LITTLE ACTION CAN BE TAKEN BY ANY PARTY UNTIL LOEB-RHOADES LOAN IS EITHER FULLY SUBSCRIBED OR FAILS TO BE. END SUMMARY.

2. CHARGE MET MARCH 14 WITH SUBSECRETARY JOSE AYALA LASSO TO DISCUSS VISIT OF HIGH-LEVEL MISSION TO WASHINGTON. DURING COURSE OF CONVERSATION CHARGE STATED USG'S INCREASING CONCERN ABOUT LACK OF PROGRESS ON THE GULF SETTLEMENT; AND STATED HIS BELIEF THAT THE ATMOSPHERE IN WASHINGTON WOULD BE MORE CONDUCTIVE TO PRODUCTIVE DISCUSSIONS BY GOE MISSION IF THE GULF AGREEMENT WERE SIGNED BY THE TIME THE DELEGATION  
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ARRIVED IN WASHINGTON, OR AT LEAST IF THE GOE MISSION COULD STATE THAT PROGRESS HAD BEEN ACHIEVED AND THAT SIGNING WAS IMMINENT AND ASSURED. CHARGE STATED THAT GULF HAD BEEN EXTREMELY PATIENT, IN VIEW OF FACTS THAT SIGNING OF AGREEMENT HAD BEEN SCHEDULED FOR FIRST WEEK OF JANUARY AND IT WAS NOW MID-MARCH. HE SAID THERE WAS PRESUMABLY A LIMIT TO GULF'S PATIENCE.

3. CHARGE ADDED THAT HE UNDERSTOOD CEPE WAS HAVING DIFFICULTY IN MARKETING ITS CRUDE BECAUSE BUYERS FEAR GULF MIGHT TAKE LEGAL ACTION IN U.S. COURTS IF GOE DOES NOT SIGN AGREEMENT SOON. CHARGE STATED THAT MARKETING PROBLEM WOULD BE GREATLY HELPED BY THE SIGNING OF THE CONVENIO, AND THAT GULF WAS ANXIOUS TO HELP CEPE BY IMMEDIATE SIGNING.

4. CHARGE INFORMED SUBSECRETARY THAT ACCORDING TO OUR LATEST INFORMATION THERE HAVE BEEN INITIAL PROBLEMS IN PLACING A \$100 MILLION LOAN (WHICH IS TO BE USED TO PAY GULF) BECAUSE OF THE UNATTRACTIVE TERMS OFFERED. CHARGE SUGGESTED THAT GOE MIGHT WISH, IN THE INTEREST OF SAVING TIME AND AVOIDING PROBLEMS, TO RETURN TO ITS EARLIER IDEA OF PAYING GULF OUT OF MONETARY RESERVES. HE EXPLAINED THAT SINCE THE AMOUNT OF GULF'S NET DEPOSITS IS APPROXIMATELY \$70 MILLION, THE GOE COULD CANCEL GULF'S DEBT, PAY GULF \$10 MILLION OUT OF THE EXISTING LOAN, AND REIMBURSE ITS OWN TREASURY \$70 MILLION WHEN THE LOEB-RHOADES LOAN HAS BEEN FULLY SUBSCRIBED.

5. SUBSECRETARY AYALA SAID THERE ARE PROBABLY POLITICAL AND FISCAL REASONS WHY THE GOE CANNOT PAY GULF OUT OF THE MONETARY RESERVES. HE ASKED CHARGE IF USG WAS LINKING GULF SETTLEMENT TO SUCCESS OF GOE MISSION'S DISCUSSIONS IN WASHINGTON. CHARGE REPLIED THAT THE MATTERS WERE NOT DIRECTLY LINKED BUT THAT THE GOE INACTION ON GULF COULD NOT HELP BUT AFFECT THE ENVIRONMENT IN WHICH THE TALKS WILL TAKE PLACE.

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6. CHARGE STATED THAT CEPE REPS CONTINUED TO RAISE SMALL BUT ANNOYING OBJECTIONS TO THE AGREEMENT AND NOTED THAT NEW MINISTER OF RESOURCES SEMBLANTES HAS AS YET REFUSED TO DISCUSS THESE POINTS WITH LOCAL GULF MANAGER O'BRIEN. CHARGE MENTIONED PROBLEMS OF JURISDICTION OF THE LETTERS OF CREDIT, THE "ACTA" TO SETTLE DECREE 285 (WHICH WILL BE SIGNED AS AN ADDENDUM TO THE CONVENIO), AND MARC RICH'S REFUSAL TO PAY CEPE FOR THE TANKER "RUTH" CARGO. CHARGE SUGGESTED THAT IF FOR GOOD REASONS GOE COULD NOT PAY GULF OUT OF ITS AMPLE MONETARY RESERVES, IT MIGHT BE HELPFUL IF AYALA COULD STATE IN WASHINGTON THAT THE OTHER OBSTACLES (MENTIONED ABOVE) HAD BEEN REMOVED. SUBSECRETARY TOOK NOTES THROUGHOUT OUR CONVERSATION AND STATED HE WOULD BE DISCUSSING THE SUBJECT WITHIN THE GOE.

7. CHARGE, E/C COUNSELOR AND PETROLEUM OFFICER MET WITH ECUADOREAN GULF MANAGER O'BRIEN FOLLOWING MEETING WITH AYALA. O'BRIEN EXPRESSED APPRECIATION FOR POINTS MADE BY

CHARGE. HE SAID THAT LOEB-RHOADES HAD NOW PLACED \$70 MILLION OF THE \$100 MILLION LOAN, THAT PROCUREMENT OF THE FUNDS WAS NOW OUT OF THE HANDS OF THE GOE, AND THAT WHAT HOPEFULLY WERE MINOR OBSTACLES TO SIGNING WOULD BE QUICKLY RESOLVED ONCE MONEY IS IN PLACE. BOTH EMBASSY AND O'BRIEN BELIEVE THAT ANY INDICATION OF THREAT BY GULF AT THIS TIME (SUCH AS COURT ACTION AGAINST CEPE SALES) WOULD BE COUNTER-PRODUCTIVE.

8. EMBASSY ASSUMES GULF MATTER WILL BE RAISED BY DEPARTMENT WITH GOE DELEGATION DURING ITS VISIT TO WASHINGTON AS SUGGESTED REFTEL C.  
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## Message Attributes

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